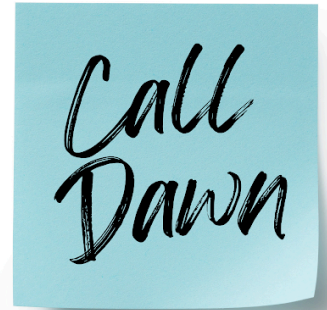




Appraisals

An appraisal is a professional evaluation of the value of a home you intend to purchase. Your lender will hire an independent, licensed appraiser to complete this assessment. While the final appraisal report is technically owned by your lender, you will receive a copy as soon as it's available.

Appraisers use three primary methods to determine a property's value. The appraiser selects the most suitable approach based on the property's characteristics and outlines the reasoning in the report. Each method carries a different weight in the final reconciliation of value.



Sales Comparison Approach

The Sales Comparison Approach is the foundation of most appraisals. The appraiser examines recently sold homes in the area that closely resemble the property being appraised. They then select five to seven comparable properties (or "comps") and adjust for any differences. Even when other methods are used, the Sales Comparison Approach typically holds the most weight in the final evaluation.

Income Approach

If the property is intended as a rental, the appraiser may also use the Income Approach. This method involves determining the likely market rent by comparing similar rental properties in the area. The appraiser then uses a formula to calculate the property's value based on its potential income. Since there is no central database for rental data, appraisers often rely on larger property management companies for rent comparisons. Our experience shows that appraisers usually report lower rent estimates than what is common in the current market.

Cost Approach

The Cost Approach evaluates the cost to build the property from scratch. Though this section is often left incomplete unless the property is newly constructed, it provides an estimate for construction costs. However, this method usually holds the least weight in the final value.

Dawn Robbins

Senior Loan Officer, nmls 432345
dawnrobbins.com

(503) 805-7878

dawn@dawnrobbinsgroup.com

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"As-Is" vs. "Subject To"

In the appraisal report, the appraiser will mark the property as either "as-is" or "subject to" repairs. "As-is" indicates the property is safe, habitable, and compliant with lending guidelines, while "subject to" means repairs are necessary for the stated value to hold. The appraiser must verify these repairs before closing.

For loans involving new construction or renovation, such as Fannie Mae HomeStyle or FHA 203(k), the appraisal will be "subject to" the proposed work, which begins after closing.



Appraisal Independence

In response to the housing crisis, the Home Valuation Code of Conduct (HVCC) was created to maintain appraisal independence. Now regulated under the Truth-in-Lending Act (TILA), it ensures that appraisers are free from influence by parties with vested interests, such as lenders or brokers. Many lenders now outsource appraisal requests to third-party Appraisal Management Companies (AMCs) to uphold this independence.

Realtor vs. Appraiser Valuation

Although both realtors and appraisers rely on comparable properties to assess value, appraisers must follow strict standards set by the Uniform Standards of Professional Appraisal Practice (USPAP). Realtors, on the other hand, have more flexibility, relying on experience and market intuition. While both often reach similar conclusions, rapidly appreciating markets or unique properties can lead to discrepancies.

Understanding the Appraisal Report

The appraisal report includes a grid where comparable properties are adjusted for differences. To someone unfamiliar with the process, the adjustments might seem strange, but appraisers follow a structured method. For example, appraisers account for below-grade square footage (like basements) separately from living areas, which can confuse them. They also adjust for seller-paid concessions, which reflect only the inherent value of the home, not the amount paid toward the buyer's closing costs.

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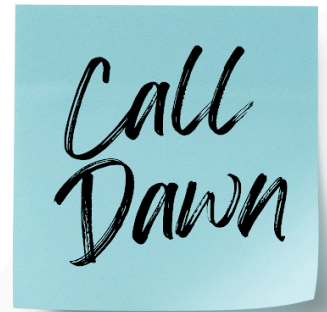




The Appraisal Process

The appraisal is a critical and often time-consuming part of the home loan process. You'll pay a deposit upfront to cover the anticipated cost. The specific form used for the appraisal depends on the type of property, with different forms for single-family homes, multi-unit properties, and condos.

Appraisals can be complex, but we are here to answer any questions you may have along the way.



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